

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: May 23, 2008 revision of May 22, 2008 impact

Bill Number: S.B. 1171 as passed by the House of Representatives May 21, 2008

Authors: Peeler **Committee Requesting Impact:** Senate Finance

Bill Summary

A bill to amend Section [12-37-900](#) of the 1976 Code, relating to the listing and returning of personal property, to provide that a manufacturer is not required to list or return personal property for ad valorem tax purposes if the property remains in this State but has not been used in operations for the entire reporting period of the manufacturer.

REVENUE IMPACT ^{1/}

This bill, as amended, would reduce sales and use tax revenue by an estimated \$24,234,880 in FY2008-09. Of this amount, General Fund sales and use tax revenue would be reduced by \$16,156,586, EIA funds would be reduced by \$4,039,147, and homestead exemption funds would be reduced by \$4,039,147 in FY2008-09. General Fund income tax revenue would be decreased by \$542,577 in FY 2008-09. General Fund admissions tax revenue would be decreased by \$800,000 in FY 2008-09. Accommodations tax revenue would increase by \$44,500 in FY 2008-09. This bill would reduce local property tax revenues by \$2,600,000 in FY2008-09 and shift it to other classes of property to the extent allowed by the millage caps.

Section 4 of this bill could not apply until FY 2009-10 and could reduce General Fund income tax revenue by \$2,293,222 in FY 2009-10 and an additional \$2,439,988 in FY 2010-11, \$2,593,799 in FY 2011-12, \$2,754,955 in FY 2012-13. The total income tax revenue reduction for the full 4% credit is estimated to be \$10,081,965 in FY 2012-13.

Explanation

The following is an explanation of the bill sections that are expected to impact revenues.

Section 1

This section provides that a manufacturer is not required to list or return personal property for ad valorem tax purposes if the property remains in South Carolina but has not been used in operations for the entire reporting period of the manufacturer. Under current law, if property is depreciated for income tax purposes, it must show up on the property return. Officials with the Department of Revenue could not readily identify any specific cases where this new exemption would apply but stated there could be some instances now or in the future. Some of the county auditors we spoke with stated this bill could reduce their property tax revenues slightly. They also expressed concern that if a plant had not been operational during the entire preceding year but became operational in February or March of the following year the property may not be taxable that year either because it was not in use as of December 31st of the preceding tax year. Based on conversations with local tax officials, we project this section could decrease local property tax revenues by an estimated \$1,600,000 in FY 2008-09.

Section 2

This section amends Section 12-36-2120(67) by moving the effective date from July 1, 2011 to July 1, 2008 for the full sales tax exemption of construction materials used in the construction or expansion of a manufacturing or distribution facility. Currently, in FY2007-08, the sales tax rate on the gross proceeds of construction materials used in the construction of a single manufacturing and/or distribution facility is four percent. According to data from the SC Department of Commerce, a total annual average of \$817,000,000 in capital investment was made by manufacturing and distribution facilities in the state between calendar years 2005 and 2007. An estimated forty percent of total construction expenditures are for construction materials. Multiplying

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an average of \$817,000,000 in capital investment projects per year by construction material costs of forty percent and applying a sales tax rate of four percent yields a reduction of sales and use tax revenue of an estimated \$13,072,000 in FY2008-09. This section also reduces the minimum capital investment requirement for the construction materials sales tax exemption from one hundred million to fifty million dollars. According to data from the S.C. Department of Commerce, manufacturing and distribution facility projects investing between \$50,000,000 and \$100,000,000 in the state invested a total annual average of \$360,000,000 in capital between 2005 and 2007. An estimated forty percent of total construction expenditures are for construction materials. Multiplying an average of \$360,000,000 in capital investment projects per year by construction material costs of forty percent and applying a sales and use tax rate of six percent yields a reduction of sales and use tax revenue of an estimated \$8,640,000 in FY2008-09. In total, this section is expected to reduce state sales and use tax by an estimated \$21,712,000 in FY2008-09. Of this amount, General Fund sales and use tax revenue would be reduced by \$14,474,666, EIA funds would be reduced by \$3,618,667, and homestead exemption funds would be reduced by \$3,618,667 in FY2008-09.

This section also further amends Section 12-36-2120(67) by adding subitem (b) to exempt construction materials used in the construction of a new or expanded office facility used by a corporate headquarters. According to the S.C. Department of Commerce, one corporate office building meeting the required qualifications of an enhanced investment pursuant to Section 12-44-30(7) and (13) and estimated at \$150,000,000 is scheduled for construction beginning in July 2008. An estimated forty percent of total construction expenditures are for construction materials. Multiplying a \$150,000,000 corporate office facility by construction material costs of forty percent and applying a sales tax rate of six percent yields a reduction of sales and use tax revenue of an estimated \$3,600,000 in FY2008-09. Of this amount, General Fund sales and use tax revenue would be reduced by \$2,400,000, EIA funds would be reduced by \$600,000 and homestead exemption funds would be reduced by \$600,000 in FY2008-09.

Part K of this section would allow real property of manufacturers used exclusively for warehousing and wholesale distribution to become subject to a 6.0 percent assessment ratio instead of a 10.5 percent assessment ratio. In the original language the property could have been used primarily for warehousing and wholesale distribution. This amendment also delays the lower assessment ratio becoming applicable until the year after the next countywide reassessment is implemented. Extending the 6.0 percent assessment ratio to this property the year after reassessment is implemented is expected to reduce local property tax revenues by less than \$1,000,000 over the five year reassessment cycle.

Section 4

This amendment adds Section 12-6-3680 providing a refundable income tax credit for recycling facilities that manufacture a product composed of at least 50% recycled content. The credit amount is equal to 1% of the facilities electricity expenditures multiplied by their recycled product content starting in FY 2009-10 and increases to 2%, 3% and then 4% in each consecutive year. The credit is only available in years in which the Board of Economic Advisors' February 15th General Fund Revenue estimate for the upcoming fiscal year is a least 5% greater than the current fiscal year. Based upon a sample of recyclers, we think that 49.2% of the 94 recycling facilities identified by the Department of Commerce will qualify for the credit based upon the 50% recycled product content requirement. We project that the total electricity expenditures are \$303,738,009 for qualifying facilities and the average recycled product content is 75.5%. Based upon these figures, we estimate that the credit will apply to \$229,322,197 for FY 2009-10. Therefore, we expect that the refundable credit at 1% of qualifying expenditures will reduce General Fund income tax revenue by \$2,293,222 in FY 2009-10 and an additional \$2,439,988 in FY 2010-11, \$2,593,799 in FY 2011-12, \$2,754,955 in FY 2012-13. The total income tax revenue reduction for the full 4% credit is estimated to be \$10,081,965 in FY 2012-13.

Section 5

This section amends 12-21-2420 by extending the admissions tax exemption to paid admissions of a

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motorsports entertainment complex for five years beginning July 1, 2008. To qualify, a motorsports entertainment complex must have at least sixty thousand fixed seats and at least six days scheduled each year for motorsport events supported by nationally or internationally recognized motorsports authorities. There is one motorsports entertainment complex that would qualify under the provisions of this section. Based upon 2007 admissions revenues reported in the financial statements of the parent company of the complex, seating capacity of the complex, and the number of races per year, the BEA estimates that the qualifying motorsports complex will generate an estimated \$6,000,000 in admissions revenues in FY2008-09. Applying an admissions tax rate of five percent, this section is expected to reduce General Fund admissions tax revenues by an estimated \$300,000 in FY2008-09.

Section 6

This section transfers the Film Commission from the Department of Commerce to the Department of Parks, Recreation and Tourism. This Section also repeals the current Motion Picture Incentive Act, which would eliminate the current sales and use tax exemption for motion picture production expenditures in South Carolina for companies that spend over \$250,000 in a year. Based on the nine projects that were granted payroll and expenditure rebates in FY 2006-07, we expect that motion picture production companies will spend \$33,000,000 in South Carolina in FY 2008-09. Of these expenditures, we expect that 20% of these purchases are for other labor services and 32% of the remaining purchases are for non-taxable items. The estimated \$17,952,000 taxed at 6% would increase sales tax revenue by \$1,077,120 in FY 2008-09. Of this total, \$718,080 would be an increase in General Fund sales tax revenue, \$179,520 would be an increase in EIA Fund revenue, and \$179,520 would be an increase in the Homestead Exemption Fund revenue. The repeal of the current Motion Picture Incentive Act would also eliminate the 2% accommodations tax exemption granted to motion picture production companies for expenditures on hotels and other housing rentals. Imposing the 2% tax on these expenditures would increase accommodations tax revenue allocated to local governments by \$44,500 in FY 2008-09. The current payroll rebates, up to 20% of South Carolina payroll if production costs exceed \$1 million a year, would be continued, and the bill would further allow up to an additional 10% rebate for all wages paid to South Carolina residents who are paid a minimum of \$18 an hour. The current 20% wage rebates totaled \$8,377,757 in FY 2006-07 based on total qualifying wages of \$44,412,624. South Carolina residents accounted for \$8,138,648 of these wages. We expect that two-thirds of these wages were for South Carolina residents paid a minimum of \$18 per hour. The resulting \$542,577 in enhanced wage rebates for higher paid South Carolina residents would result in a corresponding \$542,577 reduction in General Fund income tax revenue in FY 2008-09. Admissions tax allocations to the Department of Parks, Recreation and Tourism will increase by 2%, to 28% in total, to fund collaborative production and education efforts with higher education institutions and to fund a trainee wage reimbursement program. This would reduce General Fund admissions tax revenue by \$500,000 in FY 2008-09. In summary, this Section would increase General Fund sales and use tax revenue by \$718,080. General Fund income tax revenue would be decreased by \$542,577 and General Fund admissions tax revenue would be decreased by \$500,000 in FY 2008-09. Accounting for all these revenue impacts, net General Fund revenue would be decreased by a total of \$324,497 in FY 2008-09. Additionally, sales tax revenue allocated to the EIA Fund and the Homestead Exemption Fund would increase by \$179,520, respectively and accommodations tax revenue allocated to local governments would increase by \$44,500 in FY 2008-09.

/s/ WILLIAM C. GILLESPIE, Ph.D.

William C. Gillespie, Ph.D.
Chief Economist

Analyst: Ball, Gibson, Jolliff and Martin

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.